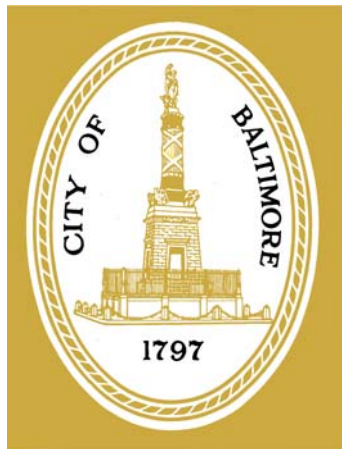

Review of
Procedures For Monitoring Utility Billings
From Baltimore Gas and Electric

For the Period From
August 2000 Through August 2001

May 2002



City of Baltimore
Department of Audits

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
City Auditor

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May 8, 2002

Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
City of Baltimore

We received an anonymous complaint through the Comptroller's Office alleging that the City of Baltimore is being overcharged hundreds of thousands of dollars because it has been paying for utility bills on properties that are no longer owned or used by the City, and it has been paying bills that have been based on estimates (gas and electric meters have not been read) for extensive periods of time. We reviewed the applicable utility bills and records maintained by the City's Bureau of Accounting and Payroll Services (BAPS) for the properties cited in the allegation, and we reviewed the procedures for monitoring and paying utility bills. The purpose of our review was to determine the validity of the allegation and to determine whether there are adequate control procedures in place for monitoring and paying utility bills.

Background Information

Each month, Baltimore Gas and Electric (BGE) bills the City for utilities, based on either actual usage (utility meter read) or estimated usage (utility meter not read). The City is billed for approximately half of its properties/billing accounts in the first half of the month (the first billing cycle) and is billed for the remaining properties later in the month (the second billing cycle). Each cycle, BGE sends BAPS the utility bills and a Financial Summary Report of those bills. BAPS records and pays those bills based on the total billed amount included in the Financial Summary Report. During fiscal year 2001, BAPS paid BGE more than \$37 million. BAPS does not pay the utility bills for the Baltimore City Public School System and the Housing Authority of Baltimore City.

According to the allegation, the City had been paying utility bills on a building (1501 Slingluff Avenue) that it no longer owned or used. Also, the building had been vacant for an extensive period of time, and the City continued paying the applicable utility bills based on estimates rather than actual meter readings. In July 2001, the City received an adjusted final bill covering the period from March 24, 1999 through January 1, 2001 that resulted in a credit balance of \$10,883. According to the allegation, the City may have also overpaid the utility bills for six other properties because the bills were estimated for several months and in some cases, as much as two years.

Scope and Objectives

Our review consisted of performing procedures to determine the validity of the allegation, obtaining a general understanding of the procedures and controls in place to ensure that the amounts paid for utility bills by the City are proper, and performing other tests that we considered necessary in the circumstances. As part of our review, we interviewed personnel from BAPS and several other City agencies. We also obtained a listing from BGE of all City properties where gas and electric services were estimated during the billing period from July 16, 2001 to August 14, 2001. We verified the accuracy and completeness of that listing by comparing it to the records and reports maintained at BAPS. We also reviewed various other records and reports maintained by BAPS for processing and paying the City's utility bills during the period from July 2000 to August 2001.

Results of the Review

The City no longer owns or uses the property at 1501 Slingluff Avenue. In July 2001, the City received an adjusted final bill covering the period from March 24, 1999 through January 1, 2001 that resulted in a credit balance of \$10,883. The City received a full refund of the \$10,883 credit balance on December 26, 2001. The meters for four other properties cited in the allegation were read in July 2001, resulting in credit balances to be applied against subsequent bills for three of those properties. Similar credits may exist for the remaining two properties cited by the allegation. However, the City has not been billed for utilities associated with those two properties because the properties are owned by the Housing Authority of Baltimore City.

We reviewed the BGE Financial Summary Reports applicable to the billing period from July 16, 2001 to August 14, 2001 and found that sixty-two (62) City properties/billing accounts had credit balances, totaling approximately \$200,000. Those credit balances ranged from \$2 to \$59,774. Although the credit balances would eventually be recovered through offsets against subsequent billings, the City has been losing the use of approximately \$200,000 each month. During the 13-month period from August 2000 through August 2001, the average monthly credit balance was \$192,000. In October 2000, the credit balance was as high as \$248,000.

We identified 10 City properties/billing accounts with credit balances of more than \$4,000 each for the billing period from July 16, 2001 to August 14, 2001 and interviewed appropriate City personnel to determine the reason for the credits and whether the City owned or used the properties during the period under review. All of the personnel interviewed believed that the credits were caused by BGE estimating the meter readings for several billing periods because it could not gain access to the meters. When the meters were eventually read, credit balances resulted. We recommended that BAPS request a refund from BGE for those credit balances. The City received an additional refund from BGE, totaling approximately \$215,000, for City properties/billing accounts with credit balances.

We identified several other City properties/billing accounts where the utility bills were estimated (some as much as 13 times) during the period from August 2000 through August 2001. For five of those City properties/billing accounts, the bills were estimated for the entire period from

January 2001 through August 2001. Consequently, the City may be entitled to additional refunds when those meters are read.

The accumulation and carrying of large monthly credit balances was caused by the following:

- Procedures did not exist for monitoring and alerting the City when meters have been estimated for several billing periods and when large credit balances exist. It is our understanding that the City is considering implementing an agreement with BGE whereby credits exceeding \$1,000 would be automatically refunded to the City. However, the City would not be aware of any credit balances until the meters are actually read.
- City agencies did not routinely notify BAPS or BGE when a property is transferred, disposed of, vacant or no longer being used by the City.
- The billed amounts on the BGE Financial Summary Reports were not verified to the actual utility bills for each property. BAPS believes that it does not have the staff necessary to review the bills each month (approximately 800 bills). Consequently, BAPS relies on BGE to correct any billing errors. For example, BGE notified the City that the total on one of the Financial Summary Reports exceeded the actual bills by \$204,662. If BGE had not notified the City, it is likely that the error would have remained undetected, and the City would have overpaid \$204,662 in utility charges.

Recommendations

We recommend that the City establish procedures to monitor utility bills on a regular basis. These procedures should include agreeing the Financial Summary Report to the accompanying bills, identifying instances where the bills have been estimated for two successive billing periods, and identifying bills for properties no longer owned by the City. The City should make arrangements to have the meters read for those properties that have had estimated billings for two successive billing periods. We also recommend that BAPS pursue with BGE the automatic refunds for any account with a credit balance exceeding \$1,000. We further recommend that the City establish procedures that assign responsibility for notifying BGE whenever a property is no longer owned by the City or will be vacant for an extended period of time. The response of the Department of Finance to our recommendations is included as an appendix to this report.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

Appendix I

The Department of Finance's Response

to the

Review of

Procedures For Monitoring Utility Billings
From Baltimore Gas and Electric

For the Period From
August 2000 Through August 2001

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF FINANCE

PEGGY J. WATSON, Director
469 City Hall
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(410) 396-4940

May 3, 2002

Ms. Yovonda D. Brooks
City Auditor
Room 321, City Hall
Baltimore, MD 21202

Dear Ms. Brooks

Thank you for the opportunity to respond on the part of the Administration to the recommendations included in your draft audit report entitled "Review of Procedures for Monitoring Utility Billings from Baltimore Gas and Electric." The Administration appreciates the work your office has done in examining our procedures and agrees that this area of operation—not just the monitoring of utility billing but also of energy consumption—is ripe for improvement. I would like to provide a general overview of the Administration's efforts in this area and then provide specific comments in response to the particular recommendations in the audit report.

Overview

We have had many of the same concerns that you have raised in this draft audit report and that have also been raised by others including the Greater Baltimore Committee and the President's Roundtable in their report entitled *Managing for Success*. As a result, the Administration has embarked on a number of initiatives, most of which fall under the purview of the new Energy Management Working Group. The working group, headed by the Mayor's Office, working in conjunction with staff from the Bureau of General Services, the Bureau of Accounting and Payroll Services (BAPS), and the Mayor's Office of Information Technology (MOIT), was created in July 2001 with the task of identifying cost-saving opportunities through better energy monitoring and conservation.

Specifically, under the leadership of the working group, the City has already

Developed a database that allows us to track the energy usage and associated costs for each of the City's ten principal downtown office buildings and compare it to baseline data from last year. This information is monitored through biweekly



General Services CitiStat meetings to identify energy problems, resolve billing errors, and evaluate the success of conservation efforts;

Begun surveying these same ten buildings to identify operational modifications that could generate not only energy efficiencies but also an improved workplace environment;

Named Energy Management Coordinators for those agencies which participate in the CitiStat process. These individuals are responsible for collecting, organizing and monitoring their agency's energy usage and billing information each month. Further, each agency has been asked to verify meter locations, and the working group has begun matching bills to locations to help ensure that the City is only receiving bills for city-owned and occupied facilities;

Entered into energy performance contracts, which will involve major overhauls to the energy systems in selected office complexes and possibly other City facilities in the future. These contracts are based on guaranteed energy cost savings; and

Launched a progressive conservation campaign to help remind all City employees to turn off lights and equipment when they are not in use.

The working group meets biweekly with the next meeting scheduled for May 16, 2002, and a representative from the Department of Audits is welcome to attend that meeting if they would like to learn more about the group's efforts.

Specific Recommendations

With regard to the specific recommendations in the audit report, following are our comments.

That the City establish procedures to monitor utility bills on a regular basis. These procedures should include agreeing the Financial Summary Report to the accompanying bills, identifying instances where the bills have been estimated for two consecutive billing periods, and identifying bills for properties no longer owned by the City. The City should make arrangements to have the meters read for those properties that have had estimated billings for two successive billing periods.

As discussed above, the Energy Management Working Group has developed a database that allows the Administration to improve our monitoring of energy consumption and expenditures by City facility, and this data is being reviewed by City managers at CitiStat meetings monthly. While the working group's initial focus is on the ten principal downtown office buildings, their efforts will expand to other City facilities as the initiative unfolds.

Further, the working group has been analyzing BGE's methodology for deriving the Financial Summary Report to better understand its components and is exploring

options for potentially receiving computerized billings from BGE that would allow for greater analysis and verification of charges. While the Finance Department does not have the capacity to verify each individual bill for the approximately 800 City accounts included in the Financial Summary Report (an exercise that would, in fact, displace the need for the Financial Summary Report in the first place), the increased monitoring and analysis that is being spearheaded by the working group will greatly enhance the City's ability to verify those charges for which it is being billed. Finally, upon your recommendation, the working group will explore the feasibility of working with BGE to track the number of estimated bills for City properties. At this point, General Services has begun reading the meters of the ten downtown buildings and cross-checking their readings against the BGE bills for those buildings.

That BAPS pursue with BGE automatic refunds for any account with a credit balance exceeding \$1,000.

The working group has approached BGE about providing automatic refunds, but the company has thus far decided that it cannot accommodate the City's request. BAPS staff, however, will institute a process for monitoring reported credits to ensure that they are either refunded or promptly applied to offset subsequent charges. BAPS will assess the relationship between these credits and discrepancies between prior bills and the Summary Report.

That the City establish procedures that assign responsibility for notifying BGE whenever a property is no longer owned by the City or will be vacant for an extended period of time.

The working group will reach out to the City's Real Estate Department to coordinate a process for properly notifying BGE when a City property is disposed of or becomes vacant to ensure that the City is no longer billed for energy consumption at the property.

Thank you again for the opportunity to respond to this audit report

Sincerely

Peggy J. Watson
Director of Finance

C Michael R. Enright
Matt Gallagher
Leif Dormsjo
Edward Gallagher
Robert Duncan